



Comptroller of the Currency
Administrator of National Banks

Winter 2004/2005

Community Developments *Investments*



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An OCC Guide to Forming a CDC

Bank-owned community development corporations are major assets

There's more to banking than the bottom line

In today's competitive financial services environment, a bank that actively reaches out to all parts of the communities it serves can develop strong, lasting, and mutually profitable relationships. By promoting community self-sufficiency and economic development, a bank can strengthen its own prospects for long-term success.

The formula — community involvement = competitive edge — sounds simple. But of course you can't just wave a wand and make local economic development happen, particularly in lower-income communities struggling with long-standing problems. Revitalization takes patience, planning, and perseverance. You have to be in it for the long haul. Your bank must work closely with community leaders and residents, and must have a sound structure within which to channel funds and expertise to targeted economic development initiatives that serve lower-income households, small businesses, and community infrastructure needs.

[Full story.](#)

E-mail CommunityAffairs@occ.treas.gov to receive a hard copy of *Community Developments*.

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A Look Inside...

Over the past decade, national banks invested more than \$2.6 billion in bank-owned community development corporations (CDCs) under the Part 24 authority. These and other CDCs have been involved in a broad spectrum of activities that primarily benefit low- and moderate-income (LMI) persons, LMI areas, and areas targeted for redevelopment. Investments range from the development of single family and multifamily housing to providing debt and equity to small and emerging businesses. Some banks have formed CDCs to institutionalize and centralize community development efforts, thus allowing them to pull together expertise in this area from diverse parts of their banks. Other banks have formed CDCs to reach new markets with creative tools.

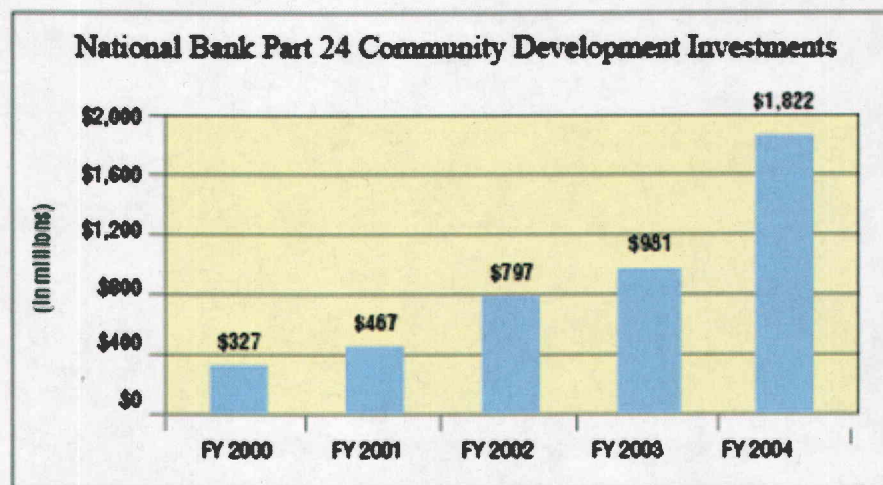
Because of the increasing popularity of the bank-owned CDC approach to community development activities, we have decided to focus this special edition of Community Developments *Investments* on bank-owned community development corporations. In these pages we will discuss various considerations for a bank thinking about forming a bank-owned CDC, including:

- What regulations govern formation and operation of a CDC?
- Where within the bank to "house" a CDC.
- How to structure the CDC.
- How to manage the CDC's activities.

Bank-owned CDCs offer an exciting option for investing in local communities and are usually eligible for Community Reinvestment Act investment test consideration. National banks are encouraged to contact OCC's [District Community Affairs Officers](#) for more information about how to form a CDC.

We hope you enjoy this publication and find its information useful.

Barry Wides
Deputy Comptroller
Community Affairs



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There's more to banking than the bottom line

In today's competitive financial services environment, a bank that actively reaches out to all parts of the communities it serves can develop strong, lasting, and mutually profitable relationships. By promoting community self-sufficiency and economic development, a bank can strengthen its own prospects for long-term success.



Key CDC is rehabilitating the Cadillac Hotel, in Seattle, with both Historic Tax Credits and New Markets Tax Credits.

The formula — community involvement = competitive edge — sounds simple. But of course you can't just wave a wand and make local economic development happen, particularly in lower-income communities struggling with long-standing problems. Revitalization takes patience, planning, and perseverance. You have to be in it for the long haul. Your bank must work closely with community leaders and residents, and must have a sound structure within which to channel funds and expertise to targeted economic development initiatives that serve lower-income households, small businesses, and community infrastructure needs.

That's where CDCs — community development corporations — come in.

CDCs are corporate entities that specialize in the development and rehabilitation of real estate, investment in business ventures, and other activities that address the housing, commercial redevelopment, employment, and community facilities needs of low- and moderate-income persons and areas, or other areas targeted by governmental entities for redevelopment. Rooted in, and responsive to, the communities they serve, CDCs have proven highly effective at attracting public funds and private investment capital to traditionally underserved areas (see: "[CDCs: 'Corrective Capitalism' at Work](#)").

Many financial institutions have leveraged their resources and expertise by partnering with existing CDCs. Alternatively, a bank may choose to form one or more wholly-owned subsidiary CDCs, typically in areas lacking an experienced CDC, or to promote specific bank-driven economic development strategies. Multi-bank CDCs can also be effective ways for banks to pool resources and work together to spur and support community economic development. Bank CDCs usually undertake relatively long-term projects, generally reinvesting any income in future projects.

Bank CDCs can undertake many kinds of economic development activities. If you are contemplating formation of a CDC, this introductory guide can help you translate planning into action.

What's in it for your bank?

There can be many advantages to forming a CDC:

Demonstrating commitment: Forming a CDC shows that your bank is committed to addressing community development needs on a long-term, ongoing basis. Struggling neighborhoods almost always have a multiplicity of needs that require a sustained commitment of resources to facilitate revitalization. Acting through a CDC, your bank can initiate and support a variety of community development projects over time, building strong community alliances and generating good. Moreover, such activities can establish a track record of commitment and accomplishment consistent with the goals of the Community Reinvestment Act.

Responding to local needs: Working through a CDC can provide maximum flexibility for making situation-specific community development investments and responding to community needs and project opportunities as they arise. Although some bank CDCs limit themselves to specialized areas, such as affordable housing or small business investment, others are structured to support comprehensive approaches to community development. For example, a subsidiary CDC may be authorized to develop its own projects, form or invest in joint ventures and limited partnerships, invest in small businesses, and provide gap equity and financing for single-purpose community development projects developed by others.

Maximizing expertise: A subsidiary CDC, like a specialized bank lending unit, can provide an organizational focal point within your bank for community development investment activities, enabling the bank to marshal resources and centralize expertise. Attracting, training, and supporting staff with specialized skills in community development finance is crucial. Community development finance in general, and equity investment in particular, are complex activities requiring special expertise in areas such as real estate development, government-assisted housing, community and economic development programs, and community development financing strategies and techniques. Housing such expertise within a CDC can be far more effective than trying to generate it on an as-needed basis from various resources within the bank. A CDC subsidiary can also help bank affiliates design and implement community development finance programs. For example, the bank CDC may provide technical assistance, advisory services, equity investments, or debt financing for such programs.

Managing risk: Forming a subsidiary CDC enables a bank to leverage its capital for community development purposes while limiting its exposure to the inevitable risks associated with investing in economically challenged areas. As a corporate entity, a CDC can leverage its capital with loans and reinvest its income in additional projects. A CDC's corporate structure also helps shield the parent institution from exposure to potential liabilities associated with real estate development and business ventures.

Attracting new business: Finally, using a CDC to generate a flow of community development activities can create profitable new banking relationships. A bank with a strong presence in a previously underserved neighborhood or community may become the bank of choice for lower-income persons and families moving into mainstream banking as their economic circumstances improve, as well as small-business entrepreneurs who thrive with the CDC's help, and developers, builders, and homeowners moving into the area. And, by demonstrating its commitment to the community as a whole, the bank will strengthen relationships with established customers and community leaders. Community development is a two-way street: the bank that supports it will be supported by it.

Getting started

As part of the process of launching a CDC, you will want to consider the following questions:

- How does the regulatory environment affect creation of a bank CDC?
- What will be the focus of the CDC's activities?
- Where will the CDC operate?
- How will the CDC be structured?

- Where to house your CDC?
- What financial resources will be committed to the CDC?
- How will the CDC be managed?
- How will any profits be distributed?
- What role will community-based organizations play in the CDC's governance and activities?

We'll look at each of these questions in turn.

How does the regulatory environment affect creation of a bank CDC?



Bank of America is building town homes as part of the effort to redevelop the Anacostia community, in Washington, DC.

The Office of the Comptroller of the Currency (OCC) has various responsibilities for supervision of CDCs established by financial institutions. These are spelled out in the Code of Federal Regulations, primarily at [12 CFR Part 24](#), commonly known as "Part 24." In general, OCC's goal is to create a supportive regulatory environment that encourages banks to make investments that benefit low- and moderate-income individuals and communities. With that goal in mind, we have recently revised Part 24 to streamline the process of creating a CDC and obtaining OCC approval for CDC investments. OCC's Community Development Division and district community affairs officers stand ready to assist national banks with this process.

Bank subsidiary CDCs are permitted to engage in activities that primarily promote the public welfare. These include activities primarily benefiting: (1) low- and moderate-income persons; (2) low- and moderate-income areas; and (3) areas targeted for redevelopment by a government entity. Investments that would receive "qualified investment" consideration under 12 CFR 25.23 (implementing the Community Reinvestment Act) are also permissible activities.

For example, a bank CDC that supports the purchase, rehabilitation, and sale of single-family homes, or the purchase, development, rehabilitation, sale or rental of multifamily housing, would meet the public welfare standard if most of the housing units will be owned or rented by low- and moderate-income families. Similarly, a bank CDC that invests in or otherwise supports businesses or ventures located in low- and moderate-income areas or other targeted redevelopment areas or that produce or retain permanent jobs, most of which are held by low- and moderate-income persons, would meet the public welfare standard. (See 12 CFR 24.6 for other examples of qualifying public welfare activities for CDCs and for a list of previously approved community development investment activities appropriate for bank CDCs.) In general, a bank CDC may also invest in a small business investment company (SBIC), because SBICs are typically considered "qualified investments" under CRA.

A national bank investing in a subsidiary CDC would typically submit a CD-1 form to the OCC under the Part 24 guidelines. Pursuant to 12 CFR 24.5, banks may be eligible to provide an after-the-fact notice to OCC within 10 days after making such an investment.

What will be the focus of the CDC's activities?

Because communities, whether urban or rural, usually have multiple needs, selecting an investment focus is an important first step in the



National City CDC earned both historic and low-income housing tax credits by investing in this supportive, multifamily housing project in Grand Rapids, MI.

process of establishing a CDC. Your bank will want to use its business experience and established community development relationships to help develop investment strategies. Active community outreach, over an extended period of time if necessary, can help identify critical needs and projects, potential target areas, and capital gaps that need to be addressed.

activities to identify community development needs, priorities, and investment opportunities. But a bank may also opt to create a CDC when conventional loans and banking services are inadequate to meet financing requests from businesses, government agencies, or community groups.

In some cases, institutions participate in formal community planning

Some banks have chosen to use bank-owned real estate acquired through foreclosure or through the deed-in-lieu-of-foreclosure process. Banks may use these assets with a community development program undertaken by a CDC. However, such CDC activities involving properties carried on the bank's books as "other real estate owned" require prior OCC approval.

When developing a mission statement or charter for a subsidiary CDC, a bank should have a clear idea not only of its initial objectives, but also of the types of future investment activities it may want to undertake. For example, although its immediate interest may be to invest in one specific low-income housing project in a particular neighborhood, it may also be aware of other community development needs that it will want to address in the future. In that case, the bank might want to structure its proposal to encompass a range of contemplated investment activities that would meet regulatory standards and conditions. OCC encourages banks to write their CDC charters broadly enough to ensure flexibility to engage in a range of activities. However, a bank that broadens its CDC activities beyond those identified in the initial charter may amend the charter, provided that it is consistent with the requirements of Part 24.

Where will the CDC operate?

Although OCC has no limitations on the geographic scope of a bank CDC's activities, this question should be considered carefully during the planning process. A bank may contemplate making community development investments in only one neighborhood or community, but find that its CDC's activities lend themselves to replication in other communities or states, or making services available to affiliate institutions. In that case the bank must ensure that appropriate financial and staffing commitments to the CDC are in place or available.

How will the CDC be structured?

Part 24 requires bank subsidiary CDCs to operate in a manner that does not expose the bank to liability beyond the amount of the bank's investment in the CDC. The most common structure that banks have chosen for CDCs is as a separately chartered subsidiary corporation.

With that kind of arrangement, the bank owns the stock of the subsidiary corporation. Owning shares of stock generally gives the right to exercise some control over the corporation's management, to share in its earnings, and to share in any residual proceeds from

the liquidation of assets upon the corporation's dissolution.

Such a corporation would be chartered through the secretary of state in the CDC's home state. OCC does not have a standard or "model" CDC charter or articles of incorporation, but most states do, usually available on the Secretary of State's or Department of Corporations' Web sites.

Some bank CDCs have chosen to make the "purpose" section of the articles of incorporation very broad, authorizing the CDC to "engage in public welfare activities consistent with 12 USC 24 (Eleventh)" Other banks have adopted narrower language, specifically identifying the community development activities in which the CDC intends to engage (typically drawing from the list of public welfare investment activities in Part 24).

A bank forming a subsidiary CDC should ensure that the CDC maintains a separate corporate identity to protect the bank from the CDC's debts and liabilities. Failure to do so could expose the bank to litigation. How a bank goes about maintaining separate corporate identities is to some extent determined by state law and the general nature of subsidiary operations. However, certain organizational elements and operating procedures are generally recognized as preserving corporate separateness in the absence of other factors, such as fraudulent purpose on the part of the parent.

Factors that determine the presence or absence of separateness include corporate procedures, financing, business purpose, and disclosure of information. Specific steps to establish and maintain separateness include:

- Maintaining a separate office for the subsidiary's business.
- Having at least one subsidiary director who is not an employee of the bank.
- Maintaining separate corporate records and books.
- Not commingling funds.
- Holding separate board of director meetings.
- Maintaining separate minutes and making separate resolutions to authorize the subsidiary CDC's actions.
- Maintaining adequate capitalization for the CDC.
- Providing adequate disclosure of the subsidiary's activities in any offering circular, prospectus, or public announcement.

OCC's Handbook on Related Organizations

(<http://www.occ.treas.gov/handbook/relatedorg.pdf>) contains additional information about the various factors considered by the courts when deciding whether to hold a parent institution liable for the debts of a subsidiary.

Where to house your CDC

There is no single best way to structure a CDC. One important consideration for national banks that are part of a holding company is deciding whether the bank or holding company will own a controlling interest in the CDC. The chart [options for structuring a CDC](#) lists some key points for a bank to consider regarding this choice.

What financial resources will be committed to the CDC?

The amount of investment capital to commit to a CDC will vary with the nature of the community needs the availability of other resources and partners, the objectives of the parent financial institution, and any limitations imposed by regulatory agencies.

From a regulatory standpoint, the most important objective is that capitalization should be appropriate, both in terms of equity and debt, to the activities being undertaken by the CDC. A CDC can begin with a modest amount of equity capital, which may grow over time as new project opportunities arise.

Bank CDCs may provide debt financing along with equity investments for community

development projects. The anticipated maximum amounts, funding options, and structure of such debt financing should be assessed when planning a community development investment program. Examples of debt financing include direct loans to the CDC, purchase of debt securities issued by the CDC or entity, issuance of lines of credit to the CDC, or participation in loans made by the CDC.

As a general rule a bank may invest up to 10 percent of capital and surplus in investments under Part 24, including any investments in its CDC. A bank investing up to 5 percent of capital and surplus in Part 24 investments may do so without prior OCC approval (although the bank is required to notify OCC of the investments as provided under 12 CFR 24.5). Above the 5-percent threshold, prior OCC approval is required.



First Tennessee Housing Corporation helped finance Park Pines Apartments in Mississippi by purchasing Low Income Housing Tax Credits.

How will the CDC be managed?

Given the complexities of the community development investment process, banks and bank holding companies must ensure that CDCs and CDC investments receive effective management and oversight. A bank establishing a CDC should be particularly attentive to the need to match management and staff experience and expertise with the

types of activities to be undertaken by the CDC.

For example, a CDC focusing on the purchase, rehabilitation, and resale of affordable housing should have, at the staff and board levels, persons with appropriate, in-depth experience in real estate development and real estate financing. Similarly, CDCs that focus on venture capital investments in small and minority businesses should have staff and board members able to assess the prospects and performance of small businesses, structure appropriate financing packages, and effectively monitor the progress of the businesses assisted. Most CDCs also make use of an investment or loan advisory committee typically of bank officers and other real estate development experts.

How will any profits be distributed?

A bank can receive profit distributions or dividends from a subsidiary CDC, and OCC places no limits on either the amounts or timing of profits generated from a bank's CDC activity. The CDC's profits may also be reinvested, subject to the dollar and percent-of-capital-and-surplus limitations established in the bank's previous CD-1 filings. Banks should be careful to ensure that when a CDC reinvests its earnings, it does not cause the bank's investment in the CDC to exceed the statutory 10-percent-of-capital-and-surplus limitation.

What role will community-based organizations play in the CDC's governance and activities?

OCC does not require national banks to adopt any particular strategy or engage in any specific forms of community involvement as a prerequisite to making community development investments. Long experience with community development suggests, however, that the prospects for success are greatly improved when, starting with the early stages of the planning process, a bank works closely with those most likely to be affected by its CDC's activities — thereby improving the prospects for responding to genuine community needs and effectively leveraging community resources.

Community development requires the active and ongoing participation of a variety of public and private organizations and people. Efforts to help meet the housing and employment needs of low- and moderate-income persons and economically distressed communities should be based on effective community involvement at each stage of the planning and financing

process. Depending on the nature and location of a project, those involved might include neighborhood development organizations, community advocacy groups, local government officials and agencies, small businesses, merchants' associations, and other business organizations. Active consultation with affected parties can help identify worthwhile projects; establish cooperative working relationships with public agencies, development groups, and potential investors; and successfully market completed projects to those most in need.

Some bank CDCs have established community advisory committees. Others rely on community outreach mechanisms already established by their parent institution. Community representation on the board of directors of a bank CDC can be helpful in maintaining close ties with the community and in resolving contentious issues that may arise in the course of an investment or project.

This guide highlights several bank-CDC success stories. Some involve the revitalization of whole inner-city neighborhoods that not so long ago would have been described as "blighted." Others have improved the stock of affordable housing in small communities where even the construction of a single home is big news.

The moral is that there's no one "right" way to do the work of community development. Some of the biggest banks in the United States are doing exemplary work, but so are some of the smallest. The key ingredient, available to all banks regardless of size, is a commitment to the community that the bank serves: all of the community, and all of the people within it.

There's more at stake than meeting the goals of the Community Reinvestment Act. At its core, the CDC concept recognizes that in the long run, a bank succeeds only when it earns, and keeps, the support of the entire community. That's a concept as old as banking — and as new as the next neighborhood revitalization project.

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Options for Structuring a Bank CDC

	Affiliate	Subsidiary
Capital	If the CDC is funded by the bank through the holding company, the capital contribution to form the CDC will reduce the bank's capital.	The capital contribution will not reduce the bank's capital because the assets of the CDC will be consolidated with the bank's capital. If a third party also invests in the CDC, the minority investment will increase the bank's Tier 1 capital.
Dividend capacity	If the CDC is funded by the bank through the holding company, the funds contributed by the bank will also reduce the bank's future dividend-paying capacity.	The funding of the CDC will not affect the bank's future dividend-paying capacity.
CDC's earnings	If the CDC is profitable, the benefits accrue to the holding company.	If the CDC is profitable, the benefits accrue to the bank.
Affiliate transaction limits	After the CDC is formed, transactions between the bank and the CDC will be subject to limitations imposed by sections 23A and 23B of the Federal Reserve Act. These transactions will count toward an aggregate limit on all such transactions, and thus may reduce the bank's ability to engage in transactions with other affiliates. Compliance with these laws may also increase the cost of funding the CDC.	Sections 23A and 23B do not apply to transactions with the CDC subsidiary, so the bank's ability to conduct transactions with other affiliates will not be impaired, and the CDC's cost of funds is minimized, which can allow the CDC greater flexibility when making investments.
Regulation	Two regulatory agencies are involved in supervision of the CDC.	Only the bank's primary regulator is directly involved in supervision of the CDC.

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CDCs: 'corrective capitalism' at work

Today's community development corporations have their origins in the 1960s. They arose when the war on poverty demonstrated that many communities lacked the financial resources to extricate themselves from decades of economic decline wrought by such forces as de-industrialization and race discrimination. In the beginning CDCs had more human than financial capital. In desperate places like Brooklyn's Bedford-Stuyvesant area, CDCs were led by community activists going door to door to generate support for creative change as the only viable alternative to the violence and despair that characterized so many of the nation's inner cities. In rural areas the same positive forces slowly began to take hold in communities no longer sustained by farming, forestry, and mining.



In 1968, Dorothy Mae Richardson and residents of Pittsburgh campaigned for better housing. Ms. Richardson enlisted city bankers and government officials to join with her block club to improve her community by making loans, capitalizing a revolving loan fund, and rehabilitating dilapidated housing units. (Photo compliments of Neighborhood Reinvestment Corp.)

CDCs initially found support largely among federal anti-poverty programs and private philanthropy. They soon demonstrated a capability for transforming despair into hope by creating opportunities where there had been none: building homes, supplying start-up capital for local entrepreneurs, and creating jobs. Most importantly, in the absence of private investment, they developed the capacity to serve as catalysts for community revitalization by taking direct action: purchasing and rehabilitating real estate, and supporting or creating local business ventures. Although the war on poverty, as such, was relatively short-lived, CDCs not only survived its demise, but developed broader alliances — with philanthropies, major corporations, and financial institutions — as the years went on.

Early on, the CDC concept attracted congressional support and was soon adapted to banking. In 1965, OCC authorized banks to make equity investments in community development corporations and projects. Enactment of the Community Reinvestment Act (CRA) in 1977 created a new impetus for these "agents of corrective capitalism," as CDCs have been called. Banks seeking to meet their CRA obligations soon discovered the value of working with — or creating — community-based organizations that could tap into the energy and expertise inherent in neighborhoods once dismissed as hopeless. In 1992, the authority to invest in CDCs to improve the public welfare was codified in statute and regulation (12 USC 24 (Eleventh) and [12 CFR Part 24](#), commonly known as "Part 24").

To date, OCC has authorized more than 40 national banks to create subsidiary CDCs involving investments of more than \$2.6 billion. Today's CDCs, whether independent or bank-owned, represent a proven way to link a community's internal resources with external investor interest. The result is a form of financial synergy that has directly or indirectly benefited millions of Americans.

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Can a community bank CDC produce big results?

In 1999, First National Bank of Edinburg, Texas, a \$2.6 billion subsidiary of First National Bank Group, Inc., formed First National Bank Group Community Development Corporation (First National CDC). The bank CDC's goal was to fund loans to local individuals and businesses that could make a difference to the well-being of their communities.



This newly renovated office building is the product of 100 percent LTV financing by First National CDC.

First National CDC takes a proven CDC approach to community lending, using relatively small loans to leverage human resources as well as capital.

- Responding to the need for more downtown businesses, First National CDC loaned a local optometrist 100 percent of the funds she needed to buy an office building to house her practice and create other small offices. She used her own funds to complete renovations, and now has a thriving downtown practice.
- A staff assistant at a nonprofit health center in Pharr, Texas dreamed of going to medical school, but couldn't qualify for a market-rate loan. The CDC loaned him the funds he needed, and the clinic guaranteed the loan. In exchange, he promised to work at the clinic for at least four years after graduating. Today, making good on that promise, Roel Esteban Cantu, MD, is bringing critically needed health care to local residents.
- The CDC made a subdivision development loan to a small nonprofit, Mercedes Affordable Housing Corp., which used the money to develop 72 lots in a new affordable-housing development. The nonprofit was able to sell all the lots and repay the CDC within a few years.
- Eleven families in Edinburg, Texas were able to move from Section 8 rental housing into homes of their own when the CDC loaned them a total of \$529,276. Although all of the borrowers had three-year track records of successful rent payments, without the CDC's help they wouldn't have been able to overcome their unfavorable credit histories.
- To help downtown Harlingen, Texas attract more visitors from throughout the Rio Grande Valley, the CDC loaned a local real estate investor the funds to acquire property and convert it into an antique zone. Several dealers have moved in, creating a lively commercial neighborhood, and they have joined forces to promote their antique district on a regional basis.
- The CDC helped residents of the community of Rio Bravo to purchase a small hall for meetings, dances, and other community events. The \$85,000 loan is being repaid.

First National CDC's loans have given the people in Hidalgo, Cameron, and Webb counties access to better health care and the opportunity to become homeowners. One community has a more vibrant downtown center and another has a place where neighbors can gather together.

Community development, south Texas-style, isn't always about big-splash projects. It can also be about the ripple effects generated by small but strategically located loans.

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How a large bank CDC targets needy neighborhoods

Bank of America's community development corporation draws on more than a quarter-century of experience in using targeted investments to strengthen communities. Today Banc of America CDC continues to pursue community development investments under the broad authority granted to national banks by the OCC's regulation [12 CFR Part 24](#).



Banc of America CDC financed Overlook Condominiums in Washington, DC, as part of the bank's America Block-by-Block program.

Bank of America views equity investment as a tool to build and enhance the expertise, capacity, and financial strength of non-profits, local agencies, and for-profits to undertake complex, catalytic developments. The CDC engages in direct real estate development, strategic equity investments, and tax credit investments, involving other stakeholders in particular projects targeted to meet the needs of low- and moderate-income neighborhoods.

Moreover, through its America Block-by-Block® program, the bank has targeted selected neighborhoods for multiple investments over the long term. Through this approach, the CDC can bring all of Bank of America's products and services to assist revitalization efforts involving public agencies and neighborhood groups. In Washington, D.C., for example, the CDC began targeting lower-income neighborhoods east of the Anacostia River in 1995, when it acquired the distressed and largely vacant Washington View Apartments in the Hillside community. Joining forces with the Hillside Collaborative, a group of residents and community leaders committed to creating a new vision for this historic African-American neighborhood, the CDC made a commitment to create for-sale and rental housing.

Many members of the community wanted less density. Demolishing several rundown buildings and creating a park-like recreation area accomplished this. The CDC then financed the rehabilitation of the remaining structures and oversaw the development of 353 affordable rental units. An important element in the project is a Make a Difference Center — a resident support center offering free after-school and summer programs, adult programs, a teen center, and the Washington Middle School for Girls (a private school for at-risk youth).

Neighborhood revitalization continues with the recent completion of the Overlook Condominiums at Washington View, involving the renovation of 77 apartments. Across the street, the bank's CDC in partnership with East of the River CDC, a community-based CDC, acquired Howard Gardens. Howard Gardens, a long-abandoned apartment complex used by drug dealers, was demolished. The site has been redeveloped as the Townes at Hillside, 65 affordable and market rate townhouses, now in its last phase. The bank's CDC is currently pursuing additional projects for development with East of the River CDC.

Coupled with the spirited activism of neighborhood groups such as the Washington View Tenants Association, Bank of America's partnership with the community has helped to spur recovery, according to Retta Gilliam, president of East of the River CDC.

“By combining all of our resources,” she says, “we’ve been able to help revitalize and re-energize a wonderful community.”

Banc of America CDC had similar success in Florida, where the CDC joined forces in 1999 with Tampa’s city government and local nonprofits, including Housing by St. Laurence, to spur the economic revitalization of the Tampa Heights neighborhood just north of downtown.

The initial \$16.6 million project, called Mobley Park, included construction of 238 affordable rental apartments for mixed-income residents. The CDC made an equity investment of \$5.3 million and provided a \$9 million letter of credit to back Hillsborough County Housing Finance Authority bonds. A City of Tampa Housing Initiative Program loan provided an additional \$1.3 million, and Housing by St. Laurence contributed land valued at \$1 million.

The CDC was determined to jump-start the revitalization of the Tampa Heights neighborhood, using the Mobley Park initiative to attract new businesses, create jobs, and develop more affordable housing in the area. The strategy has worked well to bring together numerous forces within a community. The Tampa Heights market is an example of what can be accomplished through collaboration.



Banc of America CDC, working with the Washington View Tenants Association, financed apartments that overlook Washington, DC.

Mobley Park Apartments — 40 percent affordable, for households at 60 percent of area median income — is fully occupied; nearby housing starts and renovations have picked up; and developers and investors have come into the neighborhood to build market-rate apartments as well as generate first-time homebuyer opportunities. Businesses — including GTE Federal Credit Union and Kforce, a nationwide professional staffing firm — have relocated their headquarters to Tampa Heights, contributing to the renewed vitality of the neighborhood.

Meanwhile, Banc of America CDC has moved ahead with several other initiatives. One such initiative includes partnering with the Home

Association, a local nonprofit, to redevelop the site of the historic Centro Asturiano hospital, providing 160 apartments for seniors.

Eighty percent of the units are at rates affordable for lower-income residents, with 22 of those units targeted to those at or below 35 percent of the area median income. Transportation and other services will be available to residents, who will also have the use of an adjacent park. The CDC is also working with the City of Tampa and other entities to create significant further development opportunities on the Tampa Heights riverfront.

The CDC’s efforts are also evident across Tampa Bay in the City of Clearwater, where the CDC partnered with Clearwater Neighborhood Housing Services to redevelop a blighted multifamily development in the North Greenwood neighborhood. The apartment complex was dilapidated, offering no amenities to its residents. Today the 25-building complex, known as Greenwood Apartments, has undergone a \$14 million rehabilitation including total modernization of the units, exterior remodeling, and the addition of new amenities including an onsite management office, laundry facilities, common green space, and a Make A Difference Center, with computer lab, library, and playground for children’s after-school programs. The strong collaboration between the bank, Clearwater NHS, and the City of Clearwater has created more than just upgraded housing. The redevelopment has been a catalyst to attract new development to the community in the form of a new baseball stadium, road improvements, a rehabbed library, and other facilities revitalized by the city. This redevelopment project models the bank’s direct role in the process of bringing for-profit, non-profit and governmental partners together with the commitment to transform a distressed community into a thriving neighborhood.

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Putting a CDC mission statement into practice

Formed in 1982, National City Community Development Corporation (NCCDC) has made more than \$700 million of community development investments throughout the National City Bank's service area. The CDC's mission statement summarizes its objectives—and, by extension, the kind of work that any bank CDC can undertake:



National City CDC helped finance three single-family demonstration homes for Cleveland's first CitiRama showcase.

- To promote the revitalization of low- and moderate-income neighborhoods throughout the local community of the banking affiliates, while concentrating on the interests of the present residents; by making loans and equity investments in residential and small business commercial real estate; by acquiring, owning, renovating, developing, leasing, managing and selling real and personal property; or by acting as research counselors, consultants, and promotion counselors, particularly to those engaged in redevelopment projects.
- To conduct credit and asset management counseling of low- and moderate-income residents of the local community to help them improve their ability to receive loans for purchasing or improving a home.
- To act as a contact and a catalyst between neighborhood groups, financial institutions, developers, and local, state, and federal government institutions concerned with community planning and development

Putting a mission statement into practice can take patience and perseverance, particularly in rural areas where community resources are often stretched thin. For example, when NCCDC tackled the affordable housing problems of New Castle, county seat of largely rural Lawrence County in Pennsylvania, it had to contend with all of the problems faced by a community whose days as a bustling industrial and railroad center had long since passed. Funds for any kind of revitalization were hard to find.

NCCDC partnered with six banks, a local nonprofit, local government, and two federal programs to fund construction of 16 new homes and rehabilitate another 25 homes, all to be sold to families at 60 percent or less of the area median income—in a neighborhood where so many houses had been razed over the years that half of the original plots had become empty, garbage-strewn lots.

As one of the nation's oldest bank community development corporations, NCCDC has a mission statement that has enabled it to stay focused on its community development objectives and leverage over \$6 billion of neighborhood revitalization. Projects funded by the CDC have helped create almost 50,000 units of housing and more than 4 million square feet of commercial and retail space.

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How an innovative bank launched a CDC

First Newton National Bank (Newton National) is a \$73 million institution located in central Iowa. In 1996, Newton National created the First Newton National Development Company (CDC) with \$270,000—5 percent of the bank's capital. This CDC's mission was to develop affordable housing.

Newton, a rural community of about 16,000, best known as the headquarters of Maytag Appliances, had a limited supply of affordable rental apartments. Newton National's first CDC project set out to tackle that problem.



First Newton National Development Company and Newton Housing worked together to develop this affordable, single-family home.

The CDC funded and built an 18-unit apartment building that included two units for handicapped residents. Funding for the project took all of the CDC's seed money plus \$579,000 borrowed from the bank. Construction was completed in 1996. The building was fully leased within a month and was sold within a year at a price that returned the seed money, but no profit, to the CDC.

Next, Newton National turned its attention to land that was condemned by the city of Newton because houses there were dilapidated and dangerous. The CDC bought two properties, tore down the houses, built four new ones and quickly sold them each for the CDC's cost of \$85,360, using the U.S. Department of Agriculture's Guaranteed Rural Housing Program to provide buyer financing. Inspired by the improvements, neighbors on the block started fixing up their own houses.

For its next project Newton National tried a different strategy. It loaned money to a start-up civic corporation, Newton Housing, dedicated to improving the supply of high-quality, affordable housing in the community. Although the group had never built a house before, the CDC took a chance and loaned Newton Housing \$105,500 at 4 percent, well below the market rate of 7 percent. Newton Housing built one home, sold it and was able to repay the loan.

Next door were five vacant lots priced too high to make them good targets for an affordable housing project. With help from the city and a grant from the state's local housing assistance program, Newton Housing purchased the lots and started construction on five houses in the summer of 2001. All five houses were completed and sold to low- to moderate-income buyers.

Another CDC project involves working with the local hospital to plan, fund, and build a low-income assisted-living project for Medicaid-eligible seniors. The hospital will manage the facility.

First Newton President Gary Kahn says he enjoys doing hands-on work at the CDC's projects — even the time when he was called to unclog the toilet. He also has a bit of profit to show:

the \$270,000 nest egg that launched First Newton's CDC has grown to \$330,000.



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Promoting the public welfare:

What bank CDCs can do

Bank CDCs can undertake many activities that promote the public welfare by primarily benefiting low- and moderate-income persons and communities. Investments meeting this standard can include those that provide or support:

Affordable housing, community services, or permanent jobs	<ul style="list-style-type: none">• Finance, acquire, develop, rehabilitate, manage, sell or rent affordable housing• Develop and operate an assisted living facility for the elderly• Develop and operate a special needs project, such as transitional housing for the homeless• Develop and operate a medical or mental health facility• Develop and operate a community services facility• Provide credit counseling and job training• Conduct community development research• Invest in federal low-income housing tax credits• Invest in historic rehabilitation tax credits• Generate or retain permanent jobs
Equity or debt financing for small business	<ul style="list-style-type: none">• Provide equity and loan financing and/or technical assistance for small businesses and micro enterprises• Invest in a community development entity that provides financing for small businesses• Invest in federal new markets tax credits
Area revitalization or stabilization	<ul style="list-style-type: none">• Develop and operate a commercial or industrial property• Develop and operate a business incubator• Form a community development financial institution (CDFI) or community development focus bank• Form and operate an agricultural cooperative



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Investing in Community Development Corporations — CRA Considerations

By Karen Tucker, NBE/Compliance Specialist

An investment in a bank-owned community development corporation (CDC) can expand a national bank's Community Reinvestment Act (CRA) reach, while also providing flexibility for how such an investment is considered under CRA. A national bank may use the authority under 12 CFR Part 24, OCC's Public Welfare Investment regulation, to create or invest in a CDC. This can help the investing bank expand its CRA reach to low- or moderate-income areas or low- or moderate-income individuals within its assessment area—or the broader statewide or regional area—that it otherwise might have difficulty reaching. Because the CDC could make qualified investments and community development (CD) loans, the investing bank has some flexibility in the type of CRA consideration obtained through its investment in the CDC.

When a national bank makes a qualified investment in a bank CDC, it may receive positive CRA consideration under the investment test, or lending test, or both! Here's how it works: A national bank makes a \$100,000 equity investment in a bank CDC (or its holding company CDC), in its assessment area, whose primary purpose meets the definition of community development in the CRA regulation. The bank has a \$100,000 qualified investment.

Instead of CRA consideration under the investment test, the bank may opt to receive positive CRA consideration under the lending test for the pro-rata share of the CD loans originated or purchased by the CDC during the bank's CRA evaluation period. Because the investing bank's equity investment of \$100,000 represents one percent of the CDC's \$10 million capital base, the investing bank may receive CRA consideration for one percent of the CD loans originated or purchased during this CRA evaluation period. If the CDC originated or purchased \$15 million in CD loans during this period, the investing bank would receive CRA consideration for \$150,000 of CD loans, nicely leveraging its \$100,000 equity investment.

The third option is for an investing bank to receive consideration under a combination of the investment and lending tests. Continuing the facts from the above example, the \$100,000 equity investment represents 1 percent of the CDC's capital. The bank's CD assets of \$30 million consists of \$12 million in qualified CD investments and \$18 million in CD loans, representing 40 percent and 60 percent of total CD assets, respectively. Under this approach, \$40,000 of investment test credit is earned based on the fact that CD investments represent 40 percent of the institution's CD assets. The lending test credit is based on the CD loans originated during the investing bank's CRA evaluation period as a percentage of total CD assets.

CRA Credit Options for Investments in CDCs

CDC Profile

CD Investments = \$12 million (40% of total CD assets)

CD Loans = \$18 million (60% of total CD assets)

Capital = \$10 million

A bank may choose to receive positive CRA consideration under one of the following:

Investment Test: Actual amount of the investing bank's \$100,000 equity investment = **\$100,000**

**** OR ****

Lending Test: Pro Rata Portion of CD Loans = **\$150,000** [\$15 Million CD

Loan Orig. during the CRA Eval. Period] x [\$100,000 investment +\$10 million capital]

**** OR ****

Investment & Lending Test: \$40,000 Investment Test Credit + \$90,000 Lending Test Credit = \$130,000

Investment Test Portion: 40% of \$100,000 Investment = \$40,000

Lending Test Portion: \$90,000 [\$15 Million CD Loans Orig. during CRA Eval.

Period]x[(60% of \$100,000 Investment)+\$10 Million Capital]

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Northeastern District

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Certificate of Deposit Account Registry Service

The Banking on Communities initiative enables social investors, including banks, corporations and nonprofits, to provide capital to communities that have traditionally had difficulty accessing capital. The Community Development Bankers Association (CDBA) and the Promontory Interfinancial Network have partnered to develop the Certificate of Deposit Account Registry Service (CDARS) as a way for financial institutions to serve their customers and meet institutional funding needs. CDBA has joined Promontory because CDARS can channel capital to underserved communities by acting as a deposit placement engine. CDARS allows banks and thrifts to place their customers' funds in certificates of deposit issued by other FDIC-insured institutions in amounts that do not exceed the \$100,000 insurance limit. In return, each participating bank or thrift receives an equal amount of deposit funds, through CDARS, from other bank or thrift customers.

Financial institutions can request that CDARS deposit funds in participating banks that specialize in lending in low-income communities (in community development banks that are CDFI certified by the Treasury Department's CDFI Fund). These directed deposits may earn CRA credit for the investing bank. CDARS investors may receive up to \$5 million in federal deposit insurance coverage when depositing funds using CDARS. For further information, contact Promontory Interfinancial Network at (866) 776-6426; www.promnetwork.com.

New Markets Tax Credits in Massachusetts

Banks serving the eastern Massachusetts marketplace have a new opportunity to invest in community development projects. Affirmative New Markets LLC (ANMLLC) of Boston was recently awarded \$12 million in tax credits by the Treasury Department's CDFI Fund. Those credits will now be available to private investors seeking to support the organization's community development objectives. ANMLLC will use investors' funds to finance and develop office space for organizations providing community services to low- and moderate-income residents of Falmouth and Boston. The tax credit subsidy will reduce the project's commercial rental rates, allowing the service providers to remain in the same communities as the populations they serve. For more information, contact David Ennius of Affirmative New Markets LLC at (617) 387-4300.

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Central District

Paul Ginger (312) 360-8876

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Mexicantown Community Development Corporation (MCDC)

MCDC of Detroit, Mich., is on the verge of completing a unique cultural destination. MCDC is working to establish dozens of new restaurants and small businesses to attract tourists and create approximately 195 new jobs. The

“Mexicantown International Welcome Center and Mercado” is located in the heart of this Detroit community’s commercial strip and will serve as a gateway from Canada into Detroit. The center will provide information and facilities for travelers crossing the border from Canada and will serve as a venue for artistic performances and art exhibits. It will be a catalyst for small business development. One million people are expected to visit the \$14 million center annually. MCDC is seeking \$825,000 in contributions to meet the capital campaign goal to complete the Center. Capital contributions may be considered for CRA. Investment Test credit for banks servicing the Detroit market. Contact: Maria Elena Rodriguez, (313) 967-9898, www.mexicantown.org.

South Dakota Rural Enterprise, Inc. (SDREI)

SDREI is a nonprofit certified community development financial institution (CDFI) that provides loans, training, and management assistance to community development financial institutions, revolving loan funds (RLF), and other economic development organizations. Through the \$5.3 million Capital Investment Fund (CIF), SDREI makes loans to micro-lenders and other local economic development loan funds. Loans from CIF can be used to match funding from state and federal agencies and finance a wide range of business types and loan purposes. Since 1999, the SDREI CIF has lent approximately \$3.9 million to local loan funds by using capital invested by community hospitals, community foundations, utility companies, banks, and other corporations. SDREI is now developing the South Dakota Community Capital Fund, an arrangement with the Community Reinvestment Fund (CRF) of Minnesota. Under the arrangement, CRF will purchase from SDREI small business loans originated by South Dakota CDFIs and RLFs. Banks can: 1) invest in the funds through which SDREI makes its loans to CDFIs and RLFs, 2) make loans in conjunction with local CDFIs and RLFs, and 3) provide grant funding to SDREI and its nonprofit borrowers. Contact Beth E. Davis, President, 605-978-2804; info@sdrei.org; www.sdrei.org.

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Southern District

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Fort Worth Central Community Development Corporation

Fort Worth Central, a newly-formed multi-bank community development corporation (CDC), allows banks to lend and invest in markets that are often difficult to efficiently or effectively reach. The CDC will offer low-cost loans to the city’s homebuyers with annual gross incomes of 50-to-80 percent of the area median income. Local nonprofit housing development organizations will work with the City of Fort Worth to deliver homeowner training and education. The initial loan products offered by the CDC include home improvement loans, renovation/refinance loans, and purchase/rehabilitation loans. The organization’s business plan describes a five-year \$15 million equity investment goal in a loan fund that is enhanced by the City of Fort Worth’s commitment to loan guarantees and subsidies. For more information, contact Karen Meunier with the City of Fort Worth Housing Department at (817) 392-8091; karen.meunier@fortworthgov.org.

CRA Qualified Investment Fund

The CRA Qualified Fund was created to assist financial institutions in satisfying the Investment Test of the Community Reinvestment Act. The fund invests primarily in fixed income securities that finance affordable housing, job-creation opportunities, and economic development. Investors can define the areas they would like their money to support. Shareholders are provided documentation detailing each investment made on their behalf. Since its inception in August 1999, the fund has invested approximately \$700 million in community development activities that have helped generate more than 60,000 affordable rental-housing units and 2,000 homes for low- and moderate-income families as well as \$60 million in economic development activities. Since the fund's inception through March 31, 2004, it has generated an average annualized return of 6.82 percent. For more information, contact Barbara Rose VanScoy at (877) 272-1977; bvanscoy@crafund.com; www.crafund.com.

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Western District

Susan Howard (818) 240-5175

Dave Miller (720) 475-7670

Iowa Low-Income Housing Tax Credits

The Iowa Equity Fund (IEF) is a limited liability company that was formed in 2001 to promote the development and sustainability of affordable housing through the use of the federal low-income housing tax credit program. The formation of IEF resulted from the cooperative efforts of Iowa affordable housing developers and financial assistance grants from the Iowa Finance Authority and commercial banks. In addition to underwriting investments in the federal low-income housing tax credit program, IEF staff provides technical assistance to developers, owners, and management companies on the development and management of tax credit properties. IEF will syndicate and assist in all types and sizes of affordable housing properties with emphasis on rural, difficult to develop areas, and service intensive properties, such as rent-to-own and transitional housing. Every 12-to-18 months IEF will sponsor an investment fund or syndicate tax credit developments throughout Iowa. The investment funds seek corporate investors that are traditionally Iowa-based companies. For more information, contact the Iowa Equity Fund at (515) 280-6000; www.mheginc.com/IEF/iefwhat.htm.

San Diego Capital Collaborative

The nonprofit San Diego Capital Collaborative (SDCC) is an equity capital investment fund that facilitates public and private investment in low- and moderate-income areas of San Diego City and County. Investments will receive funding from partnerships between banks, insurance companies, and pension funds. The organization has a board of directors that includes representatives from San Diego's corporate and community development communities who have experience in urban revitalization and development. The SDCC's first investment opportunity is a for-profit Smart Growth Fund (SGF) intended to raise \$60 million. The fund is intended to provide multifamily and single family housing in low- and moderate-income areas. SGF is scheduled to close in late 2004 with full funding from private sector capital. Those interested in the fund may obtain more information by contacting Barry Shultz at (619) 985-1720; Shultz@capitalcollaborative.com; www.capitalcollaborative.com.

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